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Submitted to inittativecomments@caiso.com

April 28, 2016

Dear Ms. Colbert,

Comments on CAISO’s Aliso Canyon Gas-Electric Coordination Draft Final Proposal

EDF appreciates the opportunity to comment on CAISO’s Aliso Canyon Gas-Electric Coordination Draft Final Proposal dated April 26, 2016, exploring market mechanisms to address electric reliability risks arising from the limited operability of Aliso Canyon (the “Draft Final Proposal”).

As noted by EDF in previous comments leading up to the release of the Draft Final Proposal, the lack of accurate price formation, combined with overreliance on the Aliso Canyon storage facility, is at the heart of reliability concerns over summer/winter 2016/17. Stakeholders to CAISO’s Aliso Canyon Gas-Electric Coordination process have identified a number of existing market gaps that contribute to ineffective price formation, and indeed, many of these gaps have been acknowledged by CAISO through the stakeholder process.

A market design that does not accurately reflect the costs incurred to maintain reliability will suppress investment and, as is clear from the current circumstances related to Aliso Canyon, diminish system resiliency. At its core, the CAISO market design should be refined to more accurately reflect marginal costs in the energy market, particularly from natural gas-fired units. As the Federal Energy Regulatory Commission has cautioned with respect to capacity market design, artificial price suppression may “reduce capacity costs in the short run,” but will “harm other suppliers and, of even greater concern, are deleterious to the market in the long run.”¹ CAISO is pursuing market refinements to address some of these gaps, including changes to CAISO’s compensation and bidding rules. These market refinements will enhance price formation in the California energy market, and provide clearer price signals to market participants, leading to investment, enhanced resiliency and, if carried forward, reliability alternatives to Aliso Canyon.

In some cases, however, CAISO has proposed to set aside certain beneficial market refinements representing longer term changes for further stakeholder discussion and vetting. Even as CAISO pursues near term solutions to address immediate reliability concerns stemming from the limited operability of the Aliso Canyon storage facility, it must continue its efforts to address prevailing market gaps, regardless of whether reliability concerns persist in winter 2016 and beyond. While some short term measures may be more urgent to address the currently pressing reliability challenges, CAISO must recognize that unless resolved on a going forward basis, lingering market inefficiencies risk a repeat of reliability challenges into the future, beyond summer/winter 2016/17. Deferring necessary market refinements for future stakeholder vetting should not be used as an excuse to kick the can down the road. CAISO should proceed expeditiously

¹ *PJM Interconnection, L.L.C.*, 143 FERC ¶ 61,090 at P 21 (2013)

to address existing market gaps and implement market refinements to facilitate accurate price signals, and ultimately bring least cost energy and reliability resources to the fore.

Thank you for considering these comments. Please feel free to reach out with any questions or comments.

Sincerely,

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